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***Tax Tips for
Interior Designers
and Decorators
Sales and Use Taxes***

August 2003

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PREFACE

This publication is intended as a general guide to the Sales and Use Tax Law and Regulations as they apply to interior designers and decorators.

If you cannot find the information you are looking for in this publication, please call our Information Center: 800-400-7115. Representatives are available to answer your question on weekdays between 8:00 a.m. and 5:00 p.m., except State holidays. For more about our Information Center services, see page 18.

This publication supplements Board of Equalization publication 73, *Your California Seller's Permit*. That publication, provided to first-time applicants for seller's permits, includes general information about obtaining a permit, using a resale certificate, collecting and reporting sales and use taxes, buying, selling, or discontinuing a business, and keeping records. If you do not have a current copy of this booklet, you may order one by calling the Information Center or download a copy from our website: www.boe.ca.gov.

We welcome your suggestions for improving this publication. If you would like to comment, please complete the reader survey on page 21 or send your suggestions directly to:

Policy Development Section, MIC: 50
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Note: This pamphlet summarizes the law and applicable regulations in effect as of August 2003. However, changes in the law or regulations may have occurred since that time. If there is a conflict between the text in this pamphlet and the law, the latter is controlling.

1. Designer Fees and Charges Related to the Sale of Merchandise

Many charges made by interior designers and decorators are subject to sales tax. This chapter explains how tax applies to sales of merchandise, professional fees, taxable and nontaxable labor, subcontracted work, out-of-state sales, and shipping and delivery charges. Applying tax to work involving improvements to real property, such as residential and commercial buildings, is addressed in the next chapter.

Do you need a seller's permit?

As an interior designer or decorator, your work may include services such as design, repair, reupholstering, color coordination, and planning. You may also sell merchandise, including furniture, window coverings, carpeting, home accessories, cabinets, and samples. Generally, if you sell *any* merchandise to clients, including samples or finished drawings, you must obtain a seller's permit from us and pay tax on your taxable sales. If you do not sell, install, order, or fabricate any merchandise or transfer finished plans or drawings to clients, you may not need a seller's permit. For help in determining whether you need a permit, please call our Information Center (see page 18).

The table below is a basic guide showing how sales tax applies to your charges. The remainder of the pamphlet provides essential details to help you apply this basic information.

Typical interior decorator charges: introduction to application of sales tax

<i>Your charge is for</i>	<i>Does sales tax apply?</i>
Professional fees (see page 2)	Yes, when your fees are directly related to a taxable sale. No, when your fees have no relation to the sale of merchandise.
Labor (see page 3)	Yes, when your charge is for fabrication labor. No, when your charge is for repair or installation labor or work performed on real estate (see page 7).
Merchandise (see below)	Yes, when you are the retailer of the merchandise.

Sales of merchandise

You generally must pay sales tax on the sale of merchandise to your clients, including the sale of samples and finished drawings or plans you transfer to clients. You owe tax based on the retail selling price of the merchandise, including your markup and any related taxable labor and service charges (see next section). Please note that special tax rules apply

Fees for professional services

to the sale of items that you or a subcontractor attach to real property (houses, apartments, commercial buildings, and so forth), including carpeting, wallpaper, paint, and cabinets. For information on those situations, see chapter 2, beginning on page 7.

Many designers and decorators charge a fee for professional services. Typical services include consulting, design, layout, selection of color schemes, coordinating furniture and fabrics, supervising installations, and so forth. The fee may be a negotiated fixed amount or a percentage of the selling price of furnishings, labor, and installation charges.

Tax does not apply to charges for professional services that are not directly related to the sale of merchandise. Be sure to list those charges separately on your invoice.

However, tax *does* apply to your charges for fees that are directly related to acquiring and providing furnishings and other merchandise you sell to a client. For example, when you charge fees to accompany a client to a showroom to select furniture the client is buying from you, those fees are taxable.

Example

A client contacts you and expresses interest in renovating his office. You show him different carpet, wallpaper, fabric, and paint samples. You also spend a substantial amount of time developing alternative color schemes, colors, and looks. Tax would not apply to your fee for these services because you have not yet sold any merchandise to your client. Now, after reviewing your proposals, the client makes his choice and places an order. To complete the job, you spend time measuring for draperies, shopping for furniture, and accompanying your client to showrooms. Your charges for those services are taxable because they are a part of your taxable sale of merchandise.

It's not always easy to determine the line between nontaxable professional services and taxable services related to a sale. If you need help determining whether your professional fees are taxable, please call our Information Center (see page 18).

Please note: Normally, an interior decorator's selling price of furnishings should be the *retail price*—that is, the cost to the decorator plus a reasonable markup. However, decorators sometimes invoice for sofas, tables, chairs, carpets, or other goods at their cost and then add a separately stated fee that includes their overhead and profit. If you bill in this manner, your *total fee* will be considered taxable unless you can clearly establish that a portion of the fee is for nontaxable professional services.

Labor charges

You may also charge your clients for labor associated with a taxable sale. For purposes of calculating sales tax, labor charges are divided into three basic categories: fabrication, repair, and installation. In general, tax applies to charges for *fabrication labor*, but not to charges for labor considered *repair* or *installation* (see the following sections). Nontaxable labor charges should be itemized separately on your invoice.

◆ Fabrication labor

When you make a new item or change the form or function of an existing item and then sell it to your client, the labor is considered fabrication labor. Tax applies to your charges for fabrication labor whether you provide the materials or use materials provided by your client.

Examples of taxable fabrication labor include

- Quilting new fabric.
- Converting a vase to a lamp.
- Making bedspreads, draperies, slip covers, and pillows from fabric provided by you or your client.
- Making an area rug from carpet remnants.
- Converting an old love seat into separate chairs.
- Cutting and sewing materials to be used in reupholstering (see reupholstery information beginning on next page).

◆ Repair labor

Repair labor is defined as the repairing, refinishing, or reconditioning of an item to refit or restore it for its original use. Charges for repair labor alone are not taxable.

Examples of nontaxable repair labor include

- Refinishing or putting a faux finish on a client's antique table
- Cleaning or dyeing a client's rug
- Relining old draperies

◆ Installation labor

Installation labor is defined as the labor required to install an item after it has been delivered to the client's premises. It does not include any work performed prior to installation. Charges for installation labor are not taxable. However, tax generally applies to charges for materials you provide in installing a product, such as nails, bolts, screws, cables, and so forth.

Examples of exempt installation labor include

- Hanging draperies after delivery to the job site
- Hanging paintings and other artwork
- Connecting an appliance to a power source

**Applying tax to
typical interior
decorator sales
that include labor**

◆ **Draperies**

When you fabricate and then install new draperies, all labor up to the point of installation is taxable fabrication labor. This includes taking measurements at the client's premises, cutting and sewing fabric, fireproofing or otherwise treating the fabric or other materials, shirring, lining, pleating, and pressing. The amount you charge for hanging the draperies is nontaxable installation labor and should be itemized as such on your invoice. Your charges for the draperies themselves and any installation hardware, including rods, brackets, and so forth, are taxable.

Clients may also contract with you to have their draperies cleaned, resized, relined, fireproofed, and installed at a new location. All of these services would be nontaxable repair and installation labor. Only the selling price of the lining and charges for installation hardware would be taxable.

For information on applying tax to the sale and installation of blinds and shutters, please see page 9.

◆ **Furniture reupholstering**

Furniture reupholstering generally involves sales of materials as well as fabrication, repair, and installation labor. Sales tax applies to your charges for materials and parts such as fabric, foam rubber, springs, cushions, legs, and casters. Tax also applies to your charges for items commonly referred to as "findings." These items include merchandise with small unit values such as brads, buttons, tacks, twine, and thread. You may choose to either itemize your charge for findings or use the alternative invoicing method described below.

*Fabrication
or repair labor?*

When you reupholster furniture, your charges for cutting and sewing materials for coverings, including seat and back cushions, are taxable fabrication labor. However, stripping old materials, applying new materials, retieing springs, and refinishing or applying faux finishes are nontaxable repair labor.

Invoicing options

You may use one of two methods to invoice your clients for reupholstery work. You may

- Itemize your charge for all materials and findings used, charges for fabrication labor, and charges for nontaxable repair labor, or
- List one charge for materials (do not include findings) separate from total labor charges. If you use this method, you may claim 80 percent of your total labor as nontaxable (see example next page). The remaining 20 percent will be considered taxable charges for fabrication labor and findings.

Please note: While the examples in this pamphlet show sales tax at the standard statewide rate of 7.25 percent, you must use the rate in effect for your business location.

Example of invoice using second invoicing method, for a reupholstery job with total labor charges of \$150.00. Twenty percent of the total \$150 labor charge is considered taxable labor and findings ($\$150 \times 0.20 = \30).

Reupholster chair

Fabric and other materials	\$ 450.00
Taxable labor and findings	<u>30.00</u>
Taxable total	\$ 480.00
Sales tax (@ 7.25%)	<u>34.80</u>
Nontaxable repair labor	<u>\$ 120.00</u>
Total due	\$ 634.80

For further information on applying tax to reupholstery jobs, you may wish to obtain a copy of Regulation 1550, *Reupholsterers* (see page 18).

Subcontracted work

For information on subcontracted work involving improvements to real property, see page 7.

You may subcontract out work including sewing, upholstery, custom furniture production, picture framing, and so forth. When you contract with your client to provide an item custom made by a subcontractor, your charge for that item and the labor to make it is taxable. However, if the subcontractor performs repair or installation labor as part of your contract, your charges for that work are not taxable.

Decorators and designers sometimes encounter difficulty in properly billing and reporting taxable and nontaxable charges because their subcontractors do not furnish them with a breakdown of materials, repair labor, and installation labor. The subcontractors may assume that because their sale to you is a sale for resale, no breakdown is necessary. For your own protection, we urge you to insist on accurate and itemized billings from subcontractors.

Example

A client hires you to redecorate a bedroom. You subcontract with Frank's Fine Fabrics to make draperies and pillows, and to install the draperies. Your invoice from Frank says:

Throw pillows (2)	\$ 100
Make and hang draperies	<u>850</u>
Total resale	\$ 950

You should ask Frank to itemize his charge for hanging the draperies so that you can itemize the nontaxable installation labor charge on your invoice to the client. Your charge for the pillows and the draperies would be taxable, but tax would not apply to your charge for hanging the draperies.

Sales of products delivered outside California

Sales tax generally does not apply to your transaction when you sell a product and ship it directly to the purchaser at an out-of-state location, for use outside California. Please note that you must ship the item directly to the out-of-state-destination using your own delivery vehicle, the U.S. Mail, or a common or contract carrier. If the purchaser or their representative takes possession of the item inside California, even temporarily, your sale does not qualify for this tax exemption.

In addition, if you deliver an item to a known California resident at an out-of-state location, you should apply tax unless the buyer states, in writing, that they are purchasing the item for use outside California. Regardless, if you know that your client plans to use the item in California within 90 days of its purchase, your sale is taxable.

To claim an exemption for an interstate sale, you must retain records of delivery or shipment, such as shipping invoices, postage receipts and so forth.

Sales in interstate commerce are discussed in greater detail in Regulation 1620, *Sales in Interstate and Foreign Commerce*. You may also refer to Publication 101, *Sales Delivered Outside California* (see page 18).

Shipping and delivery charges

Tax does not apply to charges for shipping or delivery for nontaxable sales. For taxable sales, your charges for shipping or delivery are generally not taxable if *all* of the following conditions apply:

- The charges are separately stated on your invoice.
- A contract or common carrier, or the Postal Service, makes the delivery.
- Your charges to the client for delivery do not exceed the amount you pay to the carrier.
- Charges are for transportation directly to the client. Charges for delivery from the factory or dealer to your place of business or other intermediate point are generally taxable.

Please note: If you deliver goods using your own vehicle, or sell them for a price that includes delivery charges, the delivery charge is usually taxable.

Your invoice should use terms such as *delivery*, *shipping*, *freight*, or *postage* to represent delivery charges. Other related charges, including *handling*, are generally taxable. If you charge a single amount that combines delivery and a related charge, for example, *shipping and handling*, you must apply tax to the handling portion of the charge. The shipping portion is not taxable if it meets the criteria listed above. It is important to keep good records that fully document your shipping costs.

For more information, see publication 100, *Shipping and Delivery Charges*, and Regulation 1628, *Transportation Charges* (see page 18).

2. Improvements to Real Property

Interior decorators often contract with customers to make improvements to real property as part of a job. This chapter is a general guide to applying tax for those types of charges. For more information you may wish to obtain a copy of publication 9, Tax Tips for Construction and Building Contractors and Regulation 1521, Construction Contractors (see page 18 for ordering information).

You may be a construction contractor for sales and use tax purposes

As an interior designer or decorator you may furnish, install, or repair carpeting, other floor coverings, shutters, blinds, wall mirrors, custom cabinets, plumbing fixtures, and other items that are *attached to real property* such as houses, apartment buildings, office buildings, mobile homes with permanent foundations, or stores. When you buy items that will be attached to real property and install them yourself or pay a contractor to install them, you are generally considered a construction contractor for sales and use tax purposes, even if you do not hold a contractor's license. Any work you perform as a construction contractor falls under special sales and use tax rules, explained in this chapter.

Please note that if you only supervise the work of a contractor who bills your client directly, you are not considered a construction contractor for that job.

Fixtures vs. materials — what's the difference?

Materials are generally considered to be products that become part of the real estate when installed. Examples include carpet, padding, flooring, adhesive, wallpaper, paint, sizing, and mouldings. Whether tax applies to your charges for materials in a construction contract depends on the terms of the contract, as explained in "Types of construction contracts" below.

Fixtures are accessories to a building that do not lose their identity when installed. Examples include air conditioning units, awnings, cabinets, counters, lockers, furnaces, heating units, shutters, blinds, plumbing fixtures, garbage disposal units, and lighting fixtures. If you furnish and install fixtures, tax will apply to your charges for the fixtures but not to your charge for installation.

Types of construction contracts

Most construction contracts fall into one of two basic categories. In a *lump-sum contract*, you generally bill your client one set, agreed-upon amount for all charges associated with the work. In a *time-and-materials contract*, you generally bill your client separate amounts for labor (time) and for materials you furnish. For more details on the two types of contracts and how tax applies to materials used in each type, see the next page.

Lump-sum contracts

In a lump-sum construction contract, you are the consumer of materials used in improving the real estate. Consequently, you should not charge your client amounts for sales tax. Instead, your *purchase* of the materials is taxable. If you do not pay an amount for tax at the time of purchase, you must pay use tax to us (see “Purchases subject to use tax,” page 11).

Example

You contract with a client to furnish and install 100 square yards of wall-to-wall carpeting for a lump-sum amount of \$1,600, which includes all of your charges for the job. Your direct costs are:

Acme Carpet Mills, 100 square yards	
of carpeting @ \$8.00 per square yard	\$ 800.00
Expert Installers Inc.: Install 100 square yards	
of carpet @ 3.00 per sq. yard, including labor,	
padding, and tackless strip	300.00

You are the consumer of the carpet and should pay an amount for tax to Acme Carpet Mills on the \$800 carpet purchase price. The installer is the consumer of padding, strip, and any other materials used, and should pay an amount for tax on these materials to his or her supplier. Your total \$1,600 charge to your client is not taxable.

Time-and-materials contracts

You are also considered the consumer of materials in a time-and-materials construction contract *unless* you bill a separate amount for materials *and*

- The contract explicitly states that ownership of the materials transfers to the client before they are installed, *or*
- You bill your client an amount for “sales tax” on your invoice.

If you bill a separate amount for materials and either condition above applies, you are considered the retailer of the materials you furnish and your charges for them are taxable.

Example

Using the amounts in the example above, but with a time-and-materials contract, your direct costs remain \$1,100. You bill your client as follows:

100 square yards of carpeting	
@ \$12 per square yard	\$ 1,200.00
Sales tax @ 7.25%	87.00
Installation	<u>400.00</u>
Total	\$ 1,687.00

You are considered the retailer of the materials (carpet) since you have added an amount for tax on an itemized, marked-up billing for

materials. You therefore owe tax of \$87 on your \$1,200 material charge. Since you are a retailer of materials, you may issue a resale certificate to your supplier, Acme Carpet Mills.

Labor charges —work performed on real property

Generally, sales tax does *not* apply to the labor portion of charges for work performed on real property. This is true when you perform work on items that are attached to the building or which are part of it, such as carpets, built-in appliances, or indoor swimming pools. However, if you fabricate separate items of personal property or fixtures as a part of the job, such as shutters or throw rugs made from carpet scraps, your charge for that work is taxable fabrication. You should itemize the charge on your invoice.

Common interior decorator issues —work performed on real property

◆ Sale and installation of cabinets

You may contract with a client to install cabinets in a home, store, office, or other building. For sales and use tax purposes, some cabinets are considered construction materials and others are considered fixtures. Each cabinet in a project must be evaluated individually.

Custom cabinets

Cabinets are considered *custom* and treated as materials if you incur *less than 90 percent* of the direct cost of related labor and materials before the cabinets are installed in your client's building. The application of tax to your charges for materials depends on how you contract with your client, as explained on the previous page.

Prefabricated cabinets

Cabinets are considered *prefabricated* and treated as fixtures if you incur *at least 90 percent* of the direct cost of labor and materials in fabrication and installation before they are attached to your client's building. In this case you are considered to be the retailer of the cabinets and tax will apply to your charges for them. Installation charges are not taxable.

◆ Sale and installation of blinds and shutters

Certain window coverings—including interior wood shutters, miniblinds, vertical blinds, honeycomb blinds, Roman shades, and Venetian blinds—are considered fixtures and their sale is taxable. However, hardware items attached to a building in order to hang window coverings, such as brackets, rods, and tracks, are considered materials. The application of tax to their purchase or sale depends on whether you are a consumer or retailer for that particular construction contract. The sale and installation of draperies is not a construction contract (see page 4).

◆ Subcontracted work on real estate

Your charges to your client for subcontracted improvements to real property are not taxable because the contractor is responsible for reporting the tax. When the subcontractor is the retailer of materials and fixtures furnished in a construction contract, he or she owes tax to us on the sale.

If your client pays the subcontractor directly, the subcontractor may charge your client an amount for tax on charges for materials and fixtures. If you pay the subcontractor yourself, you may be charged an amount for tax. You cannot give the subcontractor a resale certificate for materials or fixtures furnished in a construction contract (see resale certificate information on next page).

Example

You have a contract to furnish a master bathroom. As part of the job, you subcontract with a tile installer who furnishes and installs 400 square feet of marble tiles for a total, nontaxable lump sum charge of \$8,000. You do not owe tax on the amount you charge your client for this work. The contractor is the consumer of the tile used on the job and therefore must pay tax to his supplier or to us.

You subcontract another portion of the job to a plumber who furnishes and installs a new sink, toilet, and whirlpool tub. The plumber charges you \$750 for installation labor, \$3,200 for the fixtures, and an amount for *sales tax* on the fixtures. The plumber owes sales tax on the \$3,200 fixture charge since she has itemized materials and billed you for tax. You may not issue a resale certificate to the plumber. Again, you do not owe tax on the amount you charge your client for this work.

3. Purchases, Resale Certificates, and Use Tax

Under certain circumstances, you are required to pay amounts for tax on your purchases. This chapter describes how tax applies to typical business purchases.

Purchases for resale

When you are the retailer of an item, you may buy that item for resale without paying an amount for sales and use tax to your vendor. You may also buy for resale those materials you physically incorporate into items you sell, such as fabric. To make purchases of this type, you must give the seller a properly executed resale certificate. You should not issue a resale certificate when you are buying a product that you will *use* rather than sell, *use before* you sell it, or *use for a personal purpose*. And you may not furnish resale certificates to construction contractors for work performed on real property.

If you know at the time you make a purchase that you will not resell the merchandise you are buying, you should not use a resale certificate for that transaction. In addition, it is not legal for you to give out your permit number to any other party, including your clients, for their use at retail stores or furniture marts to make purchases without paying sales tax.

For more information on issuing resale certificates, see Regulation 1668, *Sales for Resale*, and publication 42, *Is Your Purchase for Resale or Is It Taxable?* (see page 18).

Merchandise you use in your business

Tax generally applies to purchases of items that you will use in your business rather than resell. Examples include cleaning supplies, office supplies, stationery, business cards, display fixtures, tools, and equipment. You should pay an amount for sales or use tax to your suppliers when you buy these and similar items. If you use in your business an item you originally purchased for resale, that use is generally taxable (see below).

Purchases subject to use tax

If you purchase products without paying tax and use the merchandise for a purpose other than resale, you must generally pay *use tax* with your sales and use tax return. The use tax rate is the same as the sales tax rate for your location. Common examples of situations where you may owe use tax include

- Giving an item purchased for resale to a family member, friend, or client.
- Using in your home or business an item purchased for resale.
- Using in your business office supplies, tools, or equipment you purchased without paying tax.

-
- Using, storing, or giving away items purchased from an out-of-state seller who did not collect California sales or use tax on your purchase.

To report your use tax liability, enter the purchase price for the items on line 2 of your sales and use tax return as “Purchases Subject to Use Tax.”

◆ Typical situations—purchases subject to use tax

Items used for demonstration and display

If you remove an item from your resale inventory and use it for demonstration or display, you do not owe use tax provided the item remains for sale. However, if you use a demonstration or display item for any additional purpose—including personal use—or you do not offer it for sale while it is used for demonstration or display, you owe use tax on its purchase price. For more information, see Regulation 1669, *Demonstration, Display, and Use of Property Held for Resale—General* (see page 18).

Purchases from out-of-state vendors

You generally owe use tax when you purchase merchandise from an out-of-state vendor and use, store, give away, or consume the merchandise in this state. If the vendor does not collect the tax on your purchase you must pay the tax directly to our agency.

Some out-of-state retailers are authorized to collect and pay California use tax. If such a retailer charges you California tax, you should obtain a receipt from them. It must describe the item and show the purchase amount; the tax amount; the vendor’s name, address, and California seller’s permit number (or use tax registration number); and your name and address.

You should also check the tax rate applied to your purchase. While out-of-state vendors often apply tax at the statewide rate (currently 7.25 percent), you are liable for the use tax at the full rate in effect at the California location where you will first use or store the item. If the vendor charged you tax at a lower rate than the rate in effect for your location, you owe the remaining use tax. Please refer to publication 112, *Purchases from Out-of-State Vendors* (see page 18).

Purchases made over the Internet

Except for the purchase of electronically transmitted products such as software or digital graphics, tax applies to your Internet purchases in the same way it does to your purchases from brick-and-mortar stores or mail-order dealers. You owe use tax when

- You purchase goods over the Internet from an out-of-state retailer,
- The seller does not collect an amount for California sales or use tax from you, *and*
- The merchandise was delivered for your own use in California.

**Tax deductions
related to taxable
purchases**

You must pay the use tax on the purchase with your next regularly filed sales and use tax return.

If you pay another state's sales tax on a purchase, or sell an item on which you have paid California tax before you use it, you may be able to take a deduction on your sales and use tax return. For more information, see "Tax-paid purchase resold before use" and "Credit for payment of another state's tax" on pages 15 and 16.

4. Reporting Tax and Keeping Records

This chapter includes information on reporting sales and use tax, common deductions, and keeping records.

Reporting sales tax

You generally must report all of your charges on your sales and use tax return. The amount you list for total (gross) sales must include all of your charges for merchandise, labor, professional fees, overhead, delivery, and so forth, whether the charges are taxable or nontaxable. The tax due with each return is based on your total gross sales for the period, plus your purchases subject to use tax, less any allowable deductions.

Collecting an amount for tax from your clients

When you make sales as a retailer, the law allows you to collect from your clients an amount equal to the sales tax you will owe on each sale. This is known as *sales tax reimbursement*. You may add the reimbursement amount to your charges, being sure to itemize the amount on your invoice or receipts (most retailers itemize this charge as *sales tax*). Or you may include the reimbursement in the total price you charge. If you choose the latter method, you must post a visible sign stating, "All prices of taxable items include sales tax reimbursement calculated to the nearest mill," or include a similar statement on your sales invoices.

Credit sales and installment payments

The *total sales* you list on your sales and use tax return must include the price of items you sold on credit during the reporting period, even though you may not receive full payment until a later date. Tax is due on the full selling price. However, you may exclude amounts for insurance, interest, finance, and carrying charges from the taxable selling price you report for a credit sale, provided you keep adequate and complete records documenting those charges.

Please note that the tax is due when ownership or possession of the product sold transfers to your client, regardless of when you receive payment. Consequently, if you take a deposit for future delivery of merchandise, you should not report that amount on your tax return until the delivery is actually made or you transfer ownership to your client.

Example

In June a client places an order for new chairs, tables, and a desk for her office, for a total price of \$7,500. You deliver the products in July. The client pays you \$4,500 in June and agrees to pay the balance in two monthly installments. Regardless of when you receive the balance due, the full \$7,500 sale must be included in your total sales for the tax return that covers the month of July.

Credit card sales

You should report credit card sales as if they were cash transactions. The service charge or *discount* you pay the credit card organization is not allowed as a discount or deduction for sales tax purposes. You should report the sale when the client takes possession or ownership of the merchandise, not when you are paid by the credit card company.

Purchases subject to use tax

As discussed in the previous chapter, some of your purchases are subject to use tax. You must report the total cost of all of your taxable purchases on your sales and use tax return as “Purchases subject to use tax.” Tax is due with the return for the period in which you incurred the tax liability.

Example

You issue a resale certificate in January when you purchase 1,000 square yards of fabric for \$7 a yard. You sell 400 square yards to walk-in clients in your showroom and use another 580 square yards in making draperies you sell to clients. In August, you give the remaining 20 yards to a friend — a taxable use. You must report your \$140 cost for that fabric (\$7 per yard X 20 yards) as a \$140 purchase subject to use tax on your tax return that covers the month of August.

Common sales and use tax deductions

◆ Nontaxable labor

As discussed in chapter 1, tax does not apply to your charges for repair and installation labor or to certain professional fees. On your tax return you should list these amounts under “Nontaxable labor” and deduct them from your total sales.

◆ Tax-paid purchases resold before use

You may take a deduction on your sales and use tax return if you paid an amount for California sales or use tax when you purchased an item and then sold that item in a taxable transaction before using it. Include the price of the item under “tax-paid purchases resold prior to use.” More information is available in Regulation 1701, *Tax-Paid Purchases Resold* (see page 18).

Example

You buy furniture for your office, paying an amount for sales tax to your supplier. You decide not to use one end table and sell it to a client. You can take a deduction for the cost of the table on the same tax return on which you report the sale to your client.

◆ Credit for payment of another state's tax

If you were required to pay, and did pay another state's sales tax on a purchase, you may take a credit against your *use tax* liability by

- Reporting the amount of the purchase under "Purchases Subject to Use Tax," and
- Deducting the amount of tax paid under "Tax Imposed by Other States" on your return. You can claim a credit up to the amount of California use tax due.

◆ Bad debts

If you pay tax on a sale and then cannot collect all or part of the amount due you for that sale, you may claim a deduction for the taxable portion of the bad debt. You must first charge off the bad debt for income tax purposes, or if you file income tax returns on a cash basis, charge it off in accordance with generally accepted accounting principles. You should claim the deduction on the tax return for the period in which you found the account worthless and wrote it off.

If only a portion of your original charges were taxable, you may deduct only a like portion of the bad debt. First, you must determine the taxable percentage of your original sale (taxable portion ÷ total charge = taxable percentage of total). Next, apply the taxable percentage to the total bad debt to determine the allowable bad debt deduction.

Example

You contract with a client who pays you 50 percent of your charges in advance and does not pay the balance due. Your invoice reads:

	Taxable	Nontaxable
<i>Furnish and install draperies</i>		
Custom draperies, track & hardware	\$700.00	
Installation labor		100.00
<i>Reupholster sofa</i>		
Fabric and other materials	275.00	
Labor	25.00	100.00*
<i>Preliminary design consultation</i>	<u>0.00</u>	<u>180.00</u>
Subtotal	\$1,000.00	\$380.00
Sales tax (7.25% X \$1,000)	<u>72.50</u>	
Total charge	\$1,452.50	
Deposit—50%	<u>- 726.25</u>	
Balance due	\$ 726.25	

* See information on reupholstering, page 4.

To calculate your bad debt deduction:

- 1) Divide taxable portion of charge (\$1,000) by the total charge before tax (\$1,380): $\$1,000 \div \$1,380 = 72\%$
- 2) Multiply result of step 1 by bad debt to determine amount of deduction: $\$726.25 \times 72\% = \522.90

Your total allowable bad debt deduction is \$522.90.

Please note that if the tax rate has changed since you originally paid tax on the sale, you will need to make adjustments in your calculation. Please call our Information Center for help.

If you collect payment from your client after you have claimed a bad debt deduction, you must report and pay tax on the portion of the payment that applies to taxable charges. You cannot take a deduction for any amounts you paid a collection agency to collect a bad debt or for related legal fees or court costs.

Note for construction contracts: If you are the retailer of materials and fixtures furnished in a contract to improve real property (see page 7), you may take a bad debt deduction for bad debts related to that construction work. Otherwise, you may not take a bad debt deduction for unpaid amounts related to charges for improvements to real property.

Please note that the rules regarding bad debts are somewhat complex. Before you claim a deduction for a debt or pay tax on an amount you received after you claim a bad debt deduction, you may wish to contact our Information Center for help. Detailed information is also available in Regulation 1642, *Bad Debts* (see next page).

Keeping adequate records

You are required to keep complete records documenting your sales and purchases. For nontaxable transactions, those records should clearly indicate the reason the transaction was not subject to tax. You should be sure to maintain resale and exemption certificates and other information necessary to back up each exemption or deduction.

You should keep your records for four years, unless we give you written permission to destroy them at an earlier date. For more information, you may obtain a copy of publication 116, *Sales and Use Tax Records*, or Regulation 1698, *Records*, from our website or Information Center (see next page).

5. For More Information

Website

For publications, regulations, and more: *www.boe.ca.gov*

General tax questions

If you have a general tax question, please call our toll-free number and speak with a Customer Service Representative. Representatives are available weekdays from 8:00 a.m. to 5:00 p.m., except State holidays. Please call:

800-400-7115

For TDD assistance (telephone device for the deaf) please call:

From TDD phones
800-735-2929

From voice phones
800-735-2922

Assistance is available in languages other than English.

Questions regarding your account

Please call the office that maintains your records. The name and telephone number of the appropriate office is printed on your tax returns. Field office telephone numbers are provided on page 20.

To verify a seller's permit number — resale certificates

If you wish to verify the seller's permit number for a business that gives you a resale certificate for their purchase, you may use our interactive service on the Internet or call us toll free at 888-225-5263, seven days a week. Please have on hand the seller's permit number you wish to verify, the business name, business address, and business owner's name.

Faxback service

Our faxback service, which allows you to order selected forms and publications, is available 24 hours a day. Call 800-400-7115 and choose the fax option. We'll fax your selection to you within 24 hours.

Publications and regulations

To obtain copies of forms, publications, and regulations, you may:

Use the Internet. Most regulations and publications are available on our website: *www.boe.ca.gov*

Call our Information Center. A Customer Service Representative will help you during working hours. If you know the name or number of the document you need, you can call outside working hours and leave a recorded message. Certain documents are also available on our faxback service, described above.

Regulations

- | | |
|------|---|
| 1546 | Installing, Repairing, Reconditioning, in General |
| 1550 | Reupholsterers |
| 1521 | Construction Contractors |
| 1620 | Sales in Interstate and Foreign Commerce |

-
- 1628 Transportation Charges
 - 1642 Bad Debts
 - 1668 Sales for Resale
 - 1669 Demonstration, Display and Use of Property Held for Resale—General
 - 1701 Tax-Paid Purchases Resold

Publications

You may find the following publications helpful. Letters following the title indicate that the publication is available in Farsi (F), Spanish (S), Korean (K), Vietnamese (V) or Chinese (C).

- 9 Tax Tips for Construction Contractors
- 17 Appeals Procedures
- 42 Is Your Purchase for Resale or Is It Taxable? (S)
- 44 Tax Tips for District Taxes
- 47 Mobilehomes and Factory-Built Housing
- 51 Guide to Board of Equalization Services (C,K,S,V)
- 61 Sales and Use Taxes: Exemptions and Exclusions
- 70 The California Taxpayers' Bill of Rights (C,K,S,V)
- 73 Your California Seller's Permit (C,F,K,S,V)
- 74 Closing Out Your Seller's Permit (C,S)
- 75 Interest and Penalty Payments
- 76 Audits (F,S,K)
- 100 Shipping and Delivery Charges (S)
- 101 Sales Delivered Outside California (S)
- 103 Sales for Resale (S)
- 105 District Taxes and Delivered Sales (S)
- 109 Are Your Internet Sales Taxable? (S)
- 110 California Use Tax Basics (S)
- 112 Purchases from Out-of-State Vendors (S)
- 114 Consignment Sales
- 116 Sales and Use Tax Records

Tax Information Bulletin

As a registered seller, you also receive the quarterly *Tax Information Bulletin*, which includes articles on the application of law to specific types of transactions, announcements regarding new and revised publications, and other articles of interest to sellers. The bulletin is mailed with your sales and use tax return(s). If you file only once a year and would like to receive all four bulletins, please write to the following address and ask to be added to Mailing List #15: Mail Services Unit, MIC:12; Attn: Addressing Systems; State Board of Equalization; P.O. Box 942879; Sacramento, CA 94279-0012. Tax Information Bulletins are available on our website at: www.boe.ca.gov/news/tibcont.htm

Written advice

For your protection, it is best to get tax advice in writing. You may be relieved of tax, penalty, or interest charges that are due on a transaction if we determine that we gave you incorrect written advice regarding the transaction and that you reasonably relied on that advice in failing to pay the proper amount of tax. For this relief to apply, a request for advice must be in writing, identify the taxpayer to whom the advice applies, and fully describe the facts and circumstances of the transaction. Please send your request to the Board office that handles your account. Tax relief is not available if you incorrectly apply tax based on advice we give you in person or over the telephone.

Sales tax classes

Some of our local offices offer basic sales and use tax classes. If you're interested, call ahead to find out whether your local office conducts a class for beginning sellers.

Taxpayers' Rights Advocate

If you have been unable to resolve a disagreement with our agency, or if you would like to know more about your rights under the Sales and Use Tax Law, please contact the Taxpayers' Rights Advocate office:

Taxpayers' Rights Advocate Office, MIC: 70
State Board of Equalization
P.O. Box 942879
Sacramento CA 94279-0070
Phone: 888-324-2798 toll-free
916-324-2798
Fax: 916-323-3319

Field offices

City	Area Code Number		City	Area Code Number	
Bakersfield	661	395-2880	San Jose	408	277-1231
Culver City	310	342-1000	San Marcos	760	510-5850
El Centro	760	352-3431	Santa Ana	714	558-4059
Eureka	707	445-6500	Santa Rosa	707	576-2100
Fresno	559	248-4219	Stockton	209	948-7720
Kearny Mesa	858	636-3191	Suisun City	707	428-2041
Laguna Hills	949	461-5711	Torrance	310	516-4300
Long Beach	562	901-2483	Van Nuys	818	904-2300
Norwalk	562	466-1694	Ventura	805	677-2700
Oakland	510	622-4100	West Covina	626	480-7200
Rancho Mirage	760	346-8096	Offices for Out-of-State Accounts		
Redding	530	224-4729	Chicago, IL	312	201-5300
Riverside	909	680-6400	Houston, TX	281	531-3450
Sacramento	916	227-6700	New York, NY	212	697-4680
Salinas	831	443-3003	Sacramento, CA	916	227-6600
San Diego	619	525-4526			
San Francisco	415	356-6600			

What do you think of this pamphlet?

We hope that this newly revised tax tip pamphlet will help you to better understand the Sales and Use Tax Law as it applies to your business.

We would appreciate it if you could take a few minutes to give us your comments and suggestions for this pamphlet, so that we can improve future revisions. We'd also like to have some information that will help us make our publications program more useful to you. Please answer the questions below and on the reverse, remove the page, and return it to us. It is designed as a postage-paid self-mailer: you may fold the page as indicated and seal it with two pieces of tape.

Thank you for taking the time to respond to this survey.

Pamphlet Comments and Suggestions

1. Does this pamphlet help you apply the sales and use tax in your business operations?
2. Are there any sections of the pamphlet that you find particularly helpful? (please note)
3. Are there any sections of the pamphlet that you find confusing? (please explain, if possible)
4. Are there any topics not addressed in this pamphlet that you would like us to include?
5. Are there any sections of the pamphlet that you feel are incomplete? What would you add to them?
6. Do you have any other comments or suggestions for improving this pamphlet?

Name (optional) _____ Phone number (optional) _____

Please answer questions on reverse

date _____

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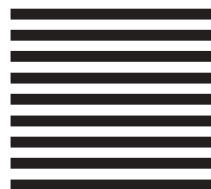


State Board of Equalization
P.O. Box 942879
Sacramento, CA 94279-0058



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Reader Survey Information (please check all boxes that apply)

What is the nature of your business?

How long have you been in business?

- ☐ less than one year ☐ 1-5 years
☐ 6-10 years ☐ more than 10 years

Did you receive a copy of this pamphlet (or an earlier version) when you applied for or received your seller's permit?

- ☐ yes ☐ no ☐ not sure

How did you find out about this pamphlet?

- ☐ Board field office
☐ Board auditor
☐ Tax Information Bulletin
☐ Publications listing in a Board pamphlet
☐ Board website
☐ Other (please list) _____

Where did you obtain this pamphlet?

- ☐ Board field office
☐ Board auditor
☐ Board Information Center
☐ Board website
☐ Other (please list)

Do you use any other Board publications to help you apply or understand the California Sales and Use Tax Law? (please list)

California State Board of Equalization
450 N Street • Sacramento, California
(Mailing Address: P.O. Box 942879 • Sacramento, CA 94279-0001)

